

COLE ACADEMY
REPORT ON FINANCIAL STATEMENTS
(with required supplemental and additional information)
YEAR ENDED JUNE 30, 2005

CONTENTS

Page

Independent auditors' report	iv - v
---	--------

Management's Discussion and Analysis	vi - xi
---	---------

Basic financial statements

Government-wide financial statements

Statement of net assets	1
-------------------------------	---

Statement of activities	2
-------------------------------	---

Fund financial statements

Balance sheet - governmental funds	3
--	---

Statement of revenues, expenditures and changes in fund balance - governmental funds.....	4
--	---

Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities.....	5
---	---

Notes to financial statements.....	6 - 17
------------------------------------	--------

Required supplementary information	18
---	----

Budgetary comparison schedule - general fund	19
--	----

Additional information	20
-------------------------------------	----

Nonmajor governmental fund types - special revenue funds

Combining balance sheet	21
-------------------------------	----

Combining statement of revenues, expenditures, and changes in fund balances	22
--	----

CONTENTS

	<u>Page</u>
Long-term debt	
Full term certificate of participation, series 2001	23
Capitalized lease	24
Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	25 - 26



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Cole Academy
Lansing, Michigan

October 10, 2005

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cole Academy (the Academy), as of and for the year ended June 30, 2005, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Cole Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Cole Academy as of June 30, 2005 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2005, on our consideration of Cole Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Directors
Cole Academy
Lansing, Michigan

October 10, 2005

The management's discussion and analysis and budgetary comparison information on pages vi through xi and 19, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Cole Academy's basic financial statements. The additional information on pages 21 through 24 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Maner, Costerisan + Ellis, P.C.

Certified Public Accountant

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Cole Academy (Academy) annual financial report presents our discussion and analysis of the public school Academy’s financial performance during the fiscal year that ended on June 30, 2005. Please read it in conjunction with the Academy’s financial statements, which immediately follow this section.

Financial Highlights

- Expenditures exceeded revenues in the general fund by \$145,310, decreasing the general fund balance to \$148,298.
- General Fund Revenues decreased by 3.9 percent over the prior year to \$1,371,482. Blended enrollment used for state aid purposes was 177.25, a decrease of 4.9% from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are academy-wide financial statements that provide both short-term and long-term information about the Academy’s overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Academy, reporting the Academy’s operations in more detail than the academy-wide statements.
- The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy’s budget for the year. Table A-1 shows how the various parts of the annual report are arranged and related to one another.

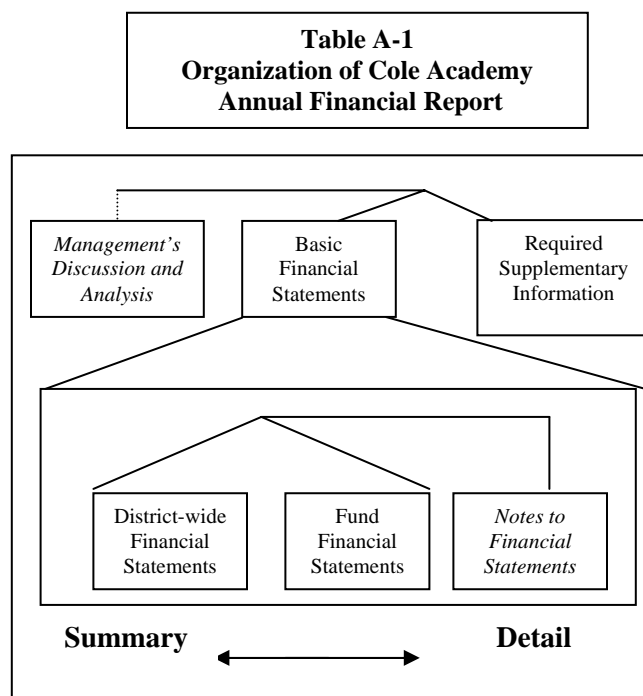


Table A-2 summarized the major features of the Academy’s financial statements, including the portion of the Academy’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements.

Table A - 2 Major Features of the Academy-Wide and Fund Financial Statements

	Academy-wide statements	Fund Financial Statements
		Governmental funds
Scope	Entire Academy (except fiduciary funds)	All activities of the Academy that are not fiduciary (the Academy does not have fiduciary funds)
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

Academy-wide statements

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy's net assets and how they have changed. Net assets - the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

In the Academy-wide financial statements, the Academy's activities:

- Governmental activities - The Academy's basic services are included in the general fund, such as regular education and administration. State foundation aid finances most of these activities.

Fund financial statements

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds - not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by State law and by debt agreements.
- The Academy establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like food services and athletics).

All of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.

Financial analysis of the Academy as a whole

Net assets - the Academy's combined net assets decreased from the prior year by \$189,672 increasing the deficit to \$193,039. See Table A - 3.

The total revenues decreased by 4.3% to \$1.43 million dollars.

The total cost of instruction increased by 4.0% to \$804,282. Total support service expenses increased 17% to \$485,671.

Figure A-3		
Cole Academy Net Assets (Deficit)		
	2005	2004
Current assets	\$ 323,670	\$ 509,975
Restricted investments	334,825	245,501
Capital assets, net	1,826,586	1,885,139
Total assets	2,485,081	2,640,615
Current liabilities	264,379	212,942
Long-term debt outstanding	2,413,741	2,431,040
Total liabilities	2,678,120	2,643,982
Net assets:		
Invested in capital assets, net of related debt	(604,454)	(557,951)
Restricted for debt service	283,117	280,976
Unrestricted	128,298	273,608
Total net assets (deficit)	\$ (193,039)	\$ (3,367)

Figure A-4		
Changes in Cole Academy's Net Assets		
	<u>2005</u>	<u>2004</u>
Revenues:		
Program revenues:		
Federal and state categorical grants	\$ 157,591	\$ 165,342
Charges for services	17,029	20,430
General revenues:		
State aid - unrestricted	1,240,775	1,291,006
Investment income	3,821	995
Local sources	15,323	24,952
Total revenues	<u>1,434,539</u>	<u>1,502,725</u>
Expenses:		
Instruction	804,282	773,382
Support services	485,671	415,031
Food services	75,374	77,916
Athletics	838	575
Interest on long-term debt	193,756	194,242
Unallocated depreciation	64,290	62,921
Total expenses	<u>1,624,211</u>	<u>1,524,067</u>
Change in net assets	<u>\$ (189,672)</u>	<u>\$ (21,342)</u>

Financial analysis of the Academy's funds

As the Academy completed the year, its governmental funds reported combined fund balances of \$459,709, a decrease of \$143,363 from last year's total of \$603,072. General fund revenues decreased by \$55,884 while expenditures increased by \$69,176. General fund local revenues were decreased in part because no rent was received from the MECC, a related party (see Note 11). Approximately \$23,000 of the increase to support service expenditures related to contracted services performed by National Charter School Institute.

The general fund balance decreased \$145,310 (49.5%) to \$148,298. This represents approximately 1½ months of the 2005 total general fund expenditures.

The general fund transferred \$16,733 to the food service program to cover expenditures in excess of revenues.

General fund budgetary highlights

Over the course of the year, the Academy revised the annual operating budget, most recently in June of 2005. Total general fund revenues and instruction expenditures decreased from the original to final budgets by approximately \$3,000 and \$65,000, respectively. Support services expenditures increased from the original to final budget by approximately \$30,000. The primary cause for the revisions was a 6.4% FTE decrease in the budgeted blended pupil count.

The excess of actual expenditures in instruction over budgeted amounts primarily relates to the treatment of accruals at year end for July and August wages and fringes.

Capital asset and debt administration

Capital assets

As of June 30, 2005, the Academy had invested \$1,826,586 in capital assets consisting primarily of land, buildings and improvements, equipment and furniture net of accumulated depreciation. This amount represents a decrease in capital assets of \$58,553 from the beginning of the year. More detailed information about capital assets can be found in Note 4 to the financial statements. Total depreciation expense for the year was \$64,290.

The Academy's capital assets are as follows:

Figure A-5				
Cole Academy's Capital Assets				
	2005			2004
	Cost	Accumulated depreciation	Net book value	Net book value
Building and improvements	\$ 1,588,389	\$ 171,533	\$ 1,416,856	\$ 1,459,346
Equipment and furniture	209,584	74,854	134,730	150,793
Land	275,000		275,000	275,000
Total	<u>\$ 2,072,973</u>	<u>\$ 246,387</u>	<u>\$ 1,826,586</u>	<u>\$ 1,885,139</u>

Long-term debt

At year-end the Academy had \$2,425,000 of full term certificates of participation and \$6,040 capital lease obligation outstanding. This represents a net decrease of \$12,050 resulting from the repayment of certificates of participation and capital lease. (More detailed information about the Academy's long-term debt is presented in Note 6 to the financial statements).

Factors bearing on the Academy's future

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could significantly affect its financial health in the future.

In December 2004, the Academy was in jeopardy of losing status as a charter school due to the consistent non-compliance with reporting deadlines, failure to pay taxes and employee benefits timely and failure to comply with state requirements. The National Charter School Institute (NCSI) was brought in to perform a needs assessment on the Academy as a whole. The results of the needs assessment were shared with Board members in March 2005 and it was clear that the administrator's actions were negatively affecting the school. In March 2005, the school administrator was released of her duties.

NCSI was contracted by the Academy to facilitate the management transition. The success of the Academy in the future depended on a complete restructuring of academic services, facilities, financial services, human resources, school improvement and technology. Throughout the remaining four months of the school year, a major overhaul took place beginning with a reassignment of management duties including position eliminations. The Business Manager position was redefined and a search began. It was not until late July 2005 that a qualified candidate was selected and began the daunting task of getting the school finances back in order.

During each phase of the transition, management analyzed budget impacts and made many adjustments. A preliminary amended 2004-2005 budget was sent to CMU based on the information available to the current board treasurer. The lack of organized information available at that time resulted in an amended budget that did not give an accurate assessment of revenues and expenses through year-end.

The enrollment was capped by the Board of Directors at 180 students for the 2004-2005 school year. Enrollment was 190 students for the 2003-2004 school year. This may result in a decrease in school funding in future years.

The Board of Directors established a cap of 180 students to maintain a 1/10 ratio between student and classroom staff. The administrator continued to enroll above the cap. Although capping the school at 180 may result in a decrease in school funding, the Board continues to believe it is in the best interest of the child to maintain a lower ratio to ensure academic success. As the school stabilizes and the instructional programs show progress, the Board has the ability to revisit the cap to allow additional revenue as long as it is in the best interest of the school to expand.

The 2004-2005 foundation allowance (state aid funding) from the State of Michigan has stabilized to \$7,000 per student. The foundation allowance represents 86% of the total Academy revenue.

It is true the economic climate in Michigan is struggling, however, the state aid funding for 2005-2006 was set at \$7,175, a 2.5% increase from the prior year. While the Academy is aware that the bulk of revenue comes from state aid, as the budgets are set each year it will be critical to be aware of the projected state funding so as to not allow a negative impact to the financial stability of the Academy.

Management is aware of the increases to the MPSERS percentage and the impact it has on the financials. It appears that, while the State is increasing retirement funding, the Academy not allowing raises for staff is contradictory. Review of the staff salaries revealed discrepancies when compared to other schools in the area as well as the lack of a salary schedule. When analyzing comparable salaries in the area, it was clear that prior year's raises had compensated some staff beyond the school's means. Current measure to manage staff salaries includes a new salary structure for 2005-2006 which actually caused salary adjustments across the board, many of them decreases. Going forward, the Academy will look to implement a cost of living increase if it is warranted by the success of the school.

One major area of focus through the management transition was the school building. It wasn't until after the end of the year that building improvements were able to be made. In creating a new classroom structural environment, there were many building updates. The school puts \$300 every month into a building repair and replacement fund. Money from that fund was used in the 2004-2005 fiscal year to replace carpet, and fix doors and windows. A school wide computer system was installed, including wiring of the building, a new phone system, a server and multiple staff and classroom computers.

Contacting the Academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's office at 1915 West Mount Hope in Lansing, Michigan, 48910.

**COLE ACADEMY
STATEMENT OF NET ASSETS
JUNE 30, 2005**

	Governmental activities
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 63,426
Due from other governmental units	238,815
Prepaid expense	21,429
TOTAL CURRENT ASSETS	323,670
NONCURRENT ASSETS:	
Restricted investments	334,825
Capital assets	2,072,973
Less accumulated depreciation	(246,387)
Net capital assets	1,826,586
TOTAL NONCURRENT ASSETS	2,161,411
TOTAL ASSETS	\$ 2,485,081
LIABILITIES AND NET ASSETS (DEFICIT)	
CURRENT LIABILITIES:	
Accounts payable	\$ 7,413
Accrued interest	48,294
Accrued salaries and related items	139,014
Other accrued expenses	6,771
Note payable	45,588
Current portion of long-term obligations	17,299
TOTAL CURRENT LIABILITIES	264,379
NONCURRENT LIABILITIES:	
Noncurrent portion of long-term obligations	2,413,741
TOTAL LIABILITIES	2,678,120
NET ASSETS (DEFICIT):	
Invested in capital assets, net of related debt	(604,454)
Restricted for debt service	283,117
Unrestricted	128,298
TOTAL NET ASSETS (DEFICIT)	(193,039)
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$ 2,485,081

See notes to financial statements.

COLE ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 804,282	\$	\$ 115,134	\$ (689,148)
Support services	485,671			(485,671)
Food services	75,374	16,184	42,457	(16,733)
Athletics	838	845		7
Interest on long-term debt	193,756			(193,756)
Unallocated depreciation expense	64,290			(64,290)
Total governmental activities	<u>\$ 1,624,211</u>	<u>\$ 17,029</u>	<u>\$ 157,591</u>	<u>(1,449,591)</u>
General revenues:				
Investment earnings				3,821
State sources				1,240,775
Local sources				<u>15,323</u>
Total general revenues				<u>1,259,919</u>
CHANGE IN NET ASSETS				(189,672)
NET ASSETS (DEFICIT), beginning of year				<u>(3,367)</u>
NET ASSETS (DEFICIT), end of year				<u>\$ (193,039)</u>

See notes to financial statements.

**COLE ACADEMY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	General fund	Debt service fund	Other nonmajor governmental funds	Total governmental funds
ASSETS				
ASSETS:				
Cash	\$ 63,426	\$	\$	\$ 63,426
Investments	23,414	311,411		334,825
Receivables:				
Other governmental units	233,166		5,649	238,815
Due from other funds	5,649			5,649
Prepaid expense	21,429			21,429
TOTAL ASSETS	\$ 347,084	\$ 311,411	\$ 5,649	\$ 664,144

LIABILITIES AND FUND BALANCES

LIABILITIES:					
Accounts payable	\$	7,413	\$	\$	7,413
Accrued salaries and related items		139,014			139,014
Other accrued expenses		6,771			6,771
Due to other funds				5,649	5,649
Note payable		45,588			45,588
TOTAL LIABILITIES		198,786		5,649	204,435

	General fund	Debt service fund	Other nonmajor governmental funds	Total governmental funds
FUND BALANCES:				
Reserved for debt service	\$ 20,000	\$ 311,411	\$	\$ 331,411
Reserved for capital projects	23,414			23,414
Designated for subsequent years expenditures	14,921			14,921
Unreserved, undesignated	89,963			89,963
TOTAL FUND BALANCES	148,298	311,411		459,709
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 347,084</u>	<u>\$ 311,411</u>	<u>\$ 5,649</u>	<u>\$ 664,144</u>
TOTAL GOVERNMENTAL FUND BALANCE				\$ 459,709

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds:

The cost of the capital assets is

Accumulated depreciation is

\$ 2,072,973
(246,387)

1,826,586

Long-term liabilities are not due and payable in the current period and are not reported in the funds:

Certificates of participation

(2,425,000)

Capital lease obligation

(6,040)

Accrued interest is not included as a liability in government funds, it is recorded when paid

(48,294)

Net assets (deficit) of governmental activities

\$ (193,039)

COLE ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2005

	General fund	Debt service fund	Other nonmajor governmental funds	Total governmental funds
REVENUES:				
Local sources:				
Private sources	\$ 4,746	\$	\$	\$ 4,746
Food service			16,184	16,184
Athletics			845	845
Investment income	250	3,571		3,821
Other	10,577			10,577
Total local sources	15,573	3,571	17,029	36,173
State sources	1,286,808		1,973	1,288,781
Federal sources	69,101		40,484	109,585
Total revenues	1,371,482	3,571	59,486	1,434,539
EXPENDITURES:				
Instruction:				
Basic programs	623,218			623,218
Added needs	185,598			185,598
Total instruction	808,816			808,816
Support services:				
Instructional staff	3,986			3,986
General administration	130,519			130,519
School administration	227,451			227,451
Business	45,442			45,442
Operation and maintenance	71,971			71,971
Central services	7,505			7,505
Total support services	486,874			486,874

	General fund	Debt service fund	Other nonmajor governmental funds	Total governmental funds
EXPENDITURES (Concluded):				
Current (Concluded):				
Athletics	\$	\$	\$ 838	\$ 838
Food service			75,374	75,374
Debt service:				
Principal retirement	2,050	10,000		12,050
Interest and fiscal charges		193,950		193,950
Total expenditures	1,297,740	203,950	76,212	1,577,902
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	73,742	(200,379)	(16,726)	(143,363)
OTHER FINANCING SOURCES (USES):				
Operating transfers in		202,326	16,733	219,059
Operating transfers out	(219,052)		(7)	(219,059)
Total other financing sources (uses)	(219,052)	202,326	16,726	
NET CHANGE IN FUND BALANCES	(145,310)	1,947		(143,363)
FUND BALANCES:				
Beginning of year	293,608	309,464		603,072
End of year	\$ 148,298	\$ 311,411	\$	\$ 459,709

COLE ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2005

Net change in fund balances total governmental funds	\$ (143,363)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(64,290)
Capital outlay	5,737

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, beginning of the year	48,488
Accrued interest payable, end of the year	(48,294)

Proceeds and repayments of principal on long-term debt are other financing sources and expenditures in the governmental funds, but not in the statement of activities (where they are additions and reductions of liabilities):

Principal repayment	12,050
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Change in net assets of governmental activities	\$ (189,672)
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COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Cole Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

A. Reporting Entity

The Cole Academy (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Central Michigan University is the authorizing governing body for the Academy. The Academy's board of directors is approved by the authorizing body and is authorized to manage the Academy and the property and affairs of the Academy. The Academy receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. In addition, the Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school Academy and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Continued)

B. Government-wide and fund financial statements (Concluded)

The Academy first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate district sources, interest income and other revenues.)

The Academy does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The Academy reports the following major governmental fund:

The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Other Non-major Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The Academy accounts for its food service and athletic activities in the special revenue funds.

**COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to the Academy based on information supplied by the Academy. For the year ended June 30, 2005, the foundation allowance was based on pupil membership counts taken in February and September of 2004.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The State revenue is recognized during the foundation period and is funded through payments from October 2004 to August 2005. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

D. Other Accounting Policies

1. Cash and equivalents

The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intend to hold the investment until maturity.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

All receivables are shown net of an allowance for uncollectibles.

**COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

3. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Building and improvements	10 - 39 years
Furniture and other equipment	10 years

The Academy's capitalization policy is to capitalize individual amounts exceeding \$1,000.

4. Long-term Obligation

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets.

In the fund financial statements, governmental fund types recognize certificates of participation premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether of not withheld from the actual debt proceeds received, are reported as debt service expenditures.

5. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Continued)

6. Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Annual appropriations expire at the end of the fiscal year.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The School Administrator submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.
3. The School Administrator is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
4. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2005. The Academy does not consider these amendments to be significant.

**COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND RESTRICTED INVESTMENTS

As of June 30, 2005, the Academy had the following investments.

Investment Type	Fair value	Weighted average maturity (years)	Standard & Poor's Rating	%
First American Treasury Obligation Fund - class D	<u>\$ 334,825</u>	<u>0.0027</u>	AAA	<u>100%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00

The Academy voluntarily invests certain excess funds in external pooled investment funds which included treasury obligations. The treasury obligation reports as of June 30, 2005, the fair value of the Academy's investments is the same as the value of the pool shares. The above investments are restricted for payment of debt service and maintenance and repair of school facilities.

Interest rate risk. The Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Academy's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The Academy will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2005, none of the Academy's bank balance of \$94,185 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the Academy will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 3 - DEPOSITS AND RESTRICTED INVESTMENTS (Concluded)

The Academy will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Academy will do business.

Foreign currency risk. The Academy is not authorized to invest in investments which have this type of risk.

The Academy has not adopted an investment policy that addresses the risks above.

NOTE 4 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 275,000	\$	\$	\$ 275,000
Capital assets, being depreciated:				
Buildings and improvements	1,587,186	1,203		1,588,389
Equipment and furniture	205,050	4,534		209,584
Total capital assets, being depreciated	1,792,236	5,737		1,797,973
Accumulated depreciation:				
Buildings and improvements	127,840	43,693		171,533
Equipment and furniture	54,257	20,597		74,854
Total accumulated depreciation	182,097	64,290		246,387
Net capital assets being depreciated	1,610,139	(58,553)		1,551,586
Net governmental capital assets	\$ 1,885,139	\$ (58,553)	\$	\$ 1,826,586

Depreciation for the fiscal year ended June 30, 2005 amounted to \$64,290. The Academy determined it is impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 5 - NOTE PAYABLE

At June 30, 2005, the Academy has \$45,588 outstanding from a revenue note dated October 14, 2004. The note, which has an interest rate of 6.5%, matures July 25, 2005. The note is secured by future state school aid payments.

Balance June 30, 2004	Additions	Payments	Balance June 30, 2005
<u>\$ 45,500</u>	<u>\$ 150,000</u>	<u>\$ 149,912</u>	<u>\$ 45,588</u>

NOTE 6 - LONG-TERM DEBT

In 2001, the Academy issued full term certificates of participation for the acquisition and improvements of a school building and land. Full term certificates of participation are direct obligations for which the Academy has pledged 20% of State Aid.

Long-term debt currently outstanding is as follows:

interest payments, due annually ranging from \$208,175 to \$410,838 through April 1, 2031, with interest rates ranging between 7.75% and 8.125%.	\$ 2,425,000
Capital lease with monthly installments of \$240 through November 2007, with an interest rate of 11.5%.	<u>6,040</u>
	<u>\$ 2,431,040</u>

The annual requirements to amortize long-term debts outstanding as of June 30 are as follows:

Year ending June 30,	Principal	Interest	Total
2006	\$ 17,299	\$ 193,751	\$ 211,050
2007	22,577	192,310	214,887
2008	26,164	190,497	216,661
2009	35,000	188,525	223,525
2010	40,000	185,812	225,812
2011-2015	255,000	877,100	1,132,100
2016-2020	360,000	763,988	1,123,988
2021-2025	525,000	598,550	1,123,550
2026-2030	770,000	352,056	1,122,056
2031	380,000	30,875	410,875
	<u>\$ 2,431,040</u>	<u>\$ 3,573,464</u>	<u>\$ 6,004,504</u>

**COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - LONG-TERM DEBT (Concluded)

An amount of \$311,411 is available in the debt service funds to service the full term certificates of participation. The certificates may be paid off early beginning in 2011 at the discretion of the Academy at stated amounts based on the terms of the agreement.

The following is a summary of long-term obligation transactions of the Academy for the year ended June 30, 2005:

Long-term debt, July 1, 2004	\$ 2,443,090
Deductions:	
Principal payments on certificates of participation and capital lease	<u>(12,050)</u>
Balance, June 30, 2005	2,431,040
Less current portion	<u>17,299</u>
Total due after one year	<u><u>\$ 2,413,741</u></u>

NOTE 7 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2005 are as follows:

Receivable Fund	Payable Fund
General	Special revenue
<u>\$ 8,584</u>	<u>\$ 8,584</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The Academy contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the board. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN (Concluded)

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The Academy is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2005, were 12.99% through September 2004 and 14.87% for October 1, 2004 through the end of the fiscal year. The contribution requirements of plan members and the Academy are established and may be amended by the MPSERS Board of Trustees. The Academy contributions to MPSERS for the years ended June 30, 2005, 2004 and 2003 were approximately \$119,000 \$97,500 and \$92,000, respectively, equal to the required contribution for each year.

The Academy is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Postemployment Benefits - Under the MPSERS' Act, all retirees have the option of continuing health, dental, and vision coverage.

NOTE 9 - OVERSIGHT FEES

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and proposal A obligation payments to the Central Michigan University Board of Trustees, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2005, the Academy incurred expense of approximately \$37,000 for oversight fees.

COLE ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 10 - RISK MANAGEMENT

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. To minimize the risk, the Academy carries commercial insurance.

NOTE 11 - RELATED PARTY TRANSACTIONS

The Academy leased building space to and obtained custodial services from the Michigan Early Childcare Center (MECC), an independently managed nonprofit organization that provided childcare services, predominantly for Academy students and family members. In addition, predominantly all food service sales were made to students through MECC. MECC ceased operations in February 2005. The Academy incurred bad debt expense of approximately \$17,000 related to accounts receivable for lease revenue billed to MECC but unpaid at the time of its closure. The Academy also paid approximately \$19,000 to MECC for custodial services during the fiscal year 2005.

NOTE 12 - TRANSFERS

Operating transfers between the governmental funds were as follows:

Operating transfers out		Operating transfers in	
General fund	\$ 219,052	School lunch fund	\$ 16,733
Athletic fund	7	Debt service fund	202,326
	<u>\$ 219,059</u>		<u>\$ 219,059</u>

The general fund transfers state aid revenues to the debt service fund to meet principal and interest payments on the certificates of participation. The general fund transfers funds to the special revenue fund to cover food service operating shortfalls.

REQUIRED SUPPLEMENTARY INFORMATION

**COLE ACADEMY
ED SUPPLEMENTAL INFOR
ETARY COMPARISON SCHI
GENERAL FUND
YEAR ENDED JUNE 30, 2005**

[illegible]

ADDITIONAL INFORMATION

**COLE ACADEMY
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2005**

	Food service fund	Athletics fund	Total nonmajor governmental funds
ASSETS			
ASSETS:			
Due from other governmental units	\$ 5,649	\$	\$ 5,649
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Due to other funds	\$ 5,649	\$	\$ 5,649

COLE ACADEMY
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2005

	Food service fund	Athletics fund	Total nonmajor governmental funds
REVENUES:			
Sale of lunches and milk	\$ 16,184	\$	\$ 16,184
Athletic events		845	845
State sources	1,973		1,973
Federal aid	40,484		40,484
	<hr/>	<hr/>	<hr/>
Total revenues	58,641	845	59,486
	<hr/>	<hr/>	<hr/>
EXPENDITURES:			
Salaries and wages	32,972		32,972
Employee benefits	11,688		11,688
Supplies and other expenses	30,714	228	30,942
Dues and fees		610	610
	<hr/>	<hr/>	<hr/>
Total expenditures	75,374	838	76,212
	<hr/>	<hr/>	<hr/>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(16,733)	7	(16,726)
	<hr/>	<hr/>	<hr/>
OTHER FINANCING SOURCES (USES):			
Net operating transfer in (out) from general fund	16,733	(7)	16,726
	<hr/>	<hr/>	<hr/>
NET CHANGE IN FUND BALANCES	<hr/>	<hr/>	<hr/>
FUND BALANCES, beginning of year	<hr/>	<hr/>	<hr/>
FUND BALANCES, end of year	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

**COLE ACADEMY
FULL TERM CERTIFICATES OF PARTICIPATION, SERIES 2001
YEAR ENDED JUNE 30, 2005**

\$2,440,000 Certificates issued April 12, 2001

Principal due April 1	Interest due		Debt service requirement for fiscal year	
	October 1	April 1	June 30,	Amount
\$ 15,000	\$ 96,588	\$ 96,587	2006	\$ 208,175
20,000	96,007	96,006	2007	212,013
25,000	95,231	95,232	2008	215,463
35,000	94,263	94,262	2009	223,525
40,000	92,906	92,907	2010	225,813
45,000	91,357	91,356	2011	227,713
45,000	89,612	89,612	2012	224,224
50,000	87,869	87,869	2013	225,738
55,000	85,931	85,931	2014	226,862
60,000	83,800	83,800	2015	227,600
60,000	81,475	81,475	2016	222,950
65,000	79,150	79,150	2017	223,300
70,000	76,631	76,632	2018	223,263
80,000	73,918	73,919	2019	227,837
85,000	70,819	70,819	2020	226,638
90,000	67,525	67,525	2021	225,050
95,000	64,037	64,037	2022	223,074
105,000	60,238	60,238	2023	225,476
115,000	56,037	56,037	2024	227,074
120,000	51,437	51,437	2025	222,874
130,000	46,638	46,638	2026	223,276
140,000	41,438	41,438	2027	222,876
155,000	35,750	35,750	2028	226,500
165,000	29,453	29,452	2029	223,905
180,000	22,750	22,750	2030	225,500
380,000	15,438	15,400	2031	410,838
<u>\$ 2,425,000</u>	<u>\$ 1,786,298</u>	<u>\$ 1,786,259</u>		<u>\$ 5,997,557</u>

The above certificates bear interest rates ranging from 7.75% to 8.125%. The certificate proceeds were used for the acquisition of real property and improvements thereto.

**COLE ACADEMY
CAPITALIZED LEASE
YEAR ENDED JUNE 30, 2005**

\$9,270 capitalized lease dated December 18, 2003.

<u>Year ended June 30,</u>	<u>Principal due</u>	<u>Interest due</u>	<u>Amount</u>
2006	\$ 2,299	\$ 576	\$ 2,875
2007	2,577	297	2,874
2008	<u>1,164</u>	<u>34</u>	<u>1,198</u>
	<u>\$ 6,040</u>	<u>\$ 907</u>	<u>\$ 6,947</u>



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raack
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Cole Academy
Lansing, Michigan

October 10, 2005

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cole Academy as of and for the year ended June 30, 2005, which collectively comprise Cole Academy's basic financial statements and have issued our report thereon dated October 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cole Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether Cole Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Board of Directors
Cole Academy
Lansing, Michigan

October 10, 2005

We noted certain matters that we reported to management of Cole Academy in a separate letter dated October 10, 2005.

This report is intended solely for the information and use of the board of education, management, U.S. Department of Education, Michigan Department of Education and is not intended and should not be used by anyone other than these specific parties.

Maner, Costerisan + Ellis, P.C.

Certified Public Accountants



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October 10, 2005

To the Board of Education
Cole Academy
Lansing, Michigan

In planning and performing our audit of the financial statements of Cole Academy for the year ended June 30, 2005, we considered the Academy's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The comments and suggestions regarding those matters follow. This letter does not affect our report dated October 10, 2005, on the financial statements of Cole Academy.

Repeat Comments:

Government Accounting Standards Board (GASB) Statement #40 "*Deposit and Investment Risk Disclosures*"

Effective June 30, 2005, governmental entities were be required to expand their current disclosure requirements addressing common risks of the deposits and investments. The disclosure requirements apply to debt and an equity investment held directly by the entity or indirectly by investment advisors and requires that a governmental entity disclose investment policies that are related to custodial credit risk, custodial risk, concentration of credit risk, interest rate risk, and foreign currency risk. If the entity has adopted no policy with respect to a particular risk, that fact should be part of the disclosure.

The Academy should review its investment policies to determine all common risks areas are identified and the appropriate level of risk of each area is quantified.

Current year comments:

Changes in Internal Control

The Academy experienced significant changes in the key individuals performing accounting and internal control procedures during the 2005 fiscal year. The business manager position was added after the fiscal year end to do most of the accounting functions performed by the Academy while an external accountant will continue to be utilized for the preparation of monthly financial statements. As a result, the Academy's internal controls have changed including changing responsibilities of certain individuals performing those functions.

Any time there is significant change to internal controls, there is an increased risk that the new policies and procedures may not be implemented or function as designed. Additional attention should be paid to the implementation and monitoring of internal controls over the upcoming months to ensure that they have been properly implemented.

We commend the Academy for implementing a purchase order system as an additional procedure to improve cost containment and internal controls. We understand that Academy personnel have online access to bank statements and electronic copies of cleared checks. We recommend that someone independent of the cash receipts and disbursements process review these items on a regular basis to ensure that only properly authorized payments are being made. In addition, we recommend that an individual be responsible to review the completed bank reconciliation and monitor the check sequence of checks issued. These are good compensating internal controls when there are only a few individuals performing the majority of accounting functions.

Payroll Taxes and Retirement Payments

During the year the Academy fell behind in making payments for federal and state payroll taxes and retirement contributions. Subsequent to year-end these issues were resolved and all necessary payments were made. It is our understanding that procedures have been revised to ensure timely payments in the future.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Academy personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Cole Academy, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Maner, Costerisan + Ellis, P.C.



Lamonte T. Lator
Bruce J. Dunn
Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

October 10, 2005

To the Audit Committee
Cole Academy
Lansing, Michigan

We have audited the financial statements of Cole Academy for the year ended June 30, 2005, and have issued our report thereon dated October 10, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated May 31, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Cole Academy. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Cole Academy compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Cole Academy are described in Note 1 to the financial statements. The academy adopted GASB statement No. 40, "Deposit & Investment Risk Disclosures", during 2005. We noted no transactions entered into by the Academy during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates to report.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Cole Academy's financial reporting process (that is, cause future financial statements to be materially misstated). Significant adjustments were made to accounts receivable, prepaid expenditures and accrued expenses during the audit. The net effect of all journal entries recorded in the general fund was to increase the expenditures over revenues by approximately \$29,000.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards with management each year prior to retention as the Cole Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

To the Audit Committee
Cole Academy
Lansing, Michigan

3

October 10, 2005

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit. Additional procedures were performed related to certain transactions identified by management.

This information is intended solely for the use of the Audit Committee and management of Cole Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maner, Costerisan + Ellis, P.C.